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SUBJECT: FRANCE: LATEST ECONOMIC TRENDS

REFS: PARIS 0081

¶1. (SBU) SUMMARY: With unemployment near 8% (and rising) and the French economy expected to contract 1.5% in 2009, France is facing up to a deeper recession and slower recovery than anticipated even two months ago. Declining government revenues and an automatic spike in social outlays will drive the government budget deficit over 100 billion euros or 5.5% of GDP in 2009, twice the respective 2007 levels. END SUMMARY.

¶2. (U) GDP: Having registered respectable 0.4% growth (annualized) in the third quarter 2008, the French economy contracted 4.7% in the fourth quarter, bringing annual GDP growth to 0.7%. Minister of Economy Christine Lagarde revised her projection of GDP growth for 2009 to a 1.0%-1.5% contraction from a January projection of 0.2%-0.5%. Her latest figure remains more optimistic than most private sector economists, the IMF (-1.9%) or the European Commission (-1.8%). In early March, an Economics Ministry official said that growth should turn positive in 2010 "above 1%".

¶3. (U) Consumption: Household consumption is one of the few bright spots in the French economy, holding strong at 2% growth (annualized) in fourth quarter 2008, averaging 1.3% for the year. Partial figures for household consumption indicate that consumption of manufactured goods rose in January, but this was partly driven by higher sales of consumer electronics and appliances (3%) and textile products (4.7%) stimulated by the semi-annual sales in January. A jump in January unemployment is likely to presage a fall in consumer spending (see ref tel on lack of use of consumer credit in France and close link between wage income and consumption.)

¶4. (U) Credit: As of January, growth of credit by financial institutions in France was at 7.9%, compared with January 2008. In early March testimony to the Senate, Bank of France Governor Noyer confirmed that all the six major banking groups in France had increased credit by at least 5%-6%, which he predicted would facilitate recovery, "even if demand for residential loans has fallen sharply." At the same time, he said the rise in average credit risk will be reflected in rates charged.

¶5. (U) Trade: The foreign trade deficit increased to 55 billion euros in 2008, from 40.6 billion in 2007, with exports rising 2.1% (including a 4.8% drop in exports to the U.S.) while imports rose

5.3%. Automobile exports were particularly hard hit (minus 12.6%) but aeronautics exports were dynamic, partly "recycling" oil receipts in the Middle East and Russia. Trade Minister Idrac has pointed out that, excluding energy and automobiles, the foreign trade deficit decreased 3 billion euros compared with 2007. In November, the GOF forecast a slightly lower deficit (42.3 billion euros) for 2009, in part thanks to lower energy prices. It may update its figures in its revised budget due to be presented March 14.

16. (U) Inflation: Inflation peaked at 3.6% in June 2008 but ended the year averaging 2.8%. With the January inflation rate (annualized and seasonally adjusted) at minus 0.4%, the latest government forecast is for 0.4% in 2009 and "above 1%" in 2010.

17. (U) Public Spending: In early March, the Budget Ministry forecast a government deficit of 104 billion euros or 5.6% of GDP in 2009, twice its initial September 2008 projection and well above both the late December forecast of 70 billion euro and late January's 86.5 billion. The Cour des Comptes (France's GAO equivalent) projects that the government budget deficit may not come down to Maastricht limit of 3% of GDP by 2012, and public debt could surpass 83% of GDP by 2012.

18. (U) Employment: Unemployment in metropolitan France is currently near 8%, up from 7.3% in early 2008. In January, over 90,000 newly jobless people registered for unemployment out of a workforce of 28 million, the largest single month increase since 1991. Private sector non-agricultural employment ended a five-year growth streak, peaking at 16.1 million jobs in mid 2008 before falling back to 15.9 million at year end. In January, the GOF projected creation of some

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50,000 jobs in 2009. As of March 3, the Ministry of Economy anticipates a net loss of over 300,000 jobs in 2009 and additional net job losses in 2010. The head of France's unemployment service, which publishes unemployment forecasts, said in a press interview March 1 that it is "difficult" at this point to predict 2009 unemployment rates, indicating that the 300,000 job loss figure may already be out of date.

PEKALA